TO: HONORABLE CITY COUNCIL
ATTN: FINANCE COMMITTEE
FROM: CITY MANAGER DEPARTMENT: PUBLIC WORKS
DATE: MARCH 16, 2004 CMR:181:04
SUBJECT: USE OF DOWNTOWN PARKING STRUCTURE SURPLUS CONSTRUCTION FUNDS

RECOMMENDATION
Pending the final determination of available surplus funds from the construction of the downtown parking structures, staff recommends that the Finance Committee recommend that the City Council approve the following guidelines for use of the funds:

1. Retire approximately $3.0 million of bonds as soon as feasible;
2. Offset debt service by approximately $1 million over the next 2 years ($0.62 million in 2004-05 and $0.38 million in 2005-06);
3. Retain $0.5 million in a new Maintenance Fund to fund long-term capital improvements to the Lot R (High/Alma South) and Lot S/L (Bryant/Lytton) garages.

BACKGROUND
On March 19, 2001, the City Council adopted a “Resolution Adopting Engineer’s Report, Confirming the Assessment, Ordering the Work and Directing Actions with Respect Thereto” for the new University Avenue Area Off-Street Parking Assessment District (Assessment District). The Assessment District was formed to finance the design and construction of two parking garages downtown. The Lot R (High/Alma South) garage was opened September 23, 2003 and the Lot S and L garage (Bryant/Lytton) was opened on November 26, 2003, both ahead of schedule. The new garages provide over 900 parking spaces, an increase of 700 spaces over what were previously available on these sites.

DISCUSSION
The Assessment District issued $44.6 million in bonds which were budgeted in Capital Improvement Project (CIP) 19530/PE95030. With construction of the garages completed, staff estimates, at this time, that there will be approximately $4.0 - $4.5 million of unspent funds. Because of the weak economy, the City received favorable bids from contractors resulting in lower construction costs than anticipated. Although minor construction items on the garages are still in progress and will affect the final amount of surplus funds, staff is seeking Council
direction on the final use of these funds. There are several options available in disbursing the surplus including:

1. Retiring outstanding bonds
2. Offsetting annual debt service
3. Funding a “Maintenance Fund” which can be used for future capital improvements

These options can be used in combination or alone. For example, the entire surplus can be used to retire bonds or to offset annual debt service. Another example would be to distribute the surplus using all three options as discussed below in staff’s recommendation.

Since funding for the garages came from property owners within the Assessment District, the surplus must be used to benefit the District. Given the weak local economy, staff recommends using most of the surplus to provide relief to property owners and merchants in the downtown area in the form of lower assessments. There are two vehicles to accomplish this:

- Retire outstanding bonds, thereby reducing principal and interest payments over the remaining life of the bonds. Legally, the City is required to evenly retire bonds over the next 27 years. The City cannot choose to retire bonds selectively at the beginning or end of the amortization period. If the City chooses to retire $4.0 million in bonds, staff estimates that the originally anticipated annual assessment of $1.35 per square foot (i.e. the assessment if there were no surplus funds) would be reduced to approximately $1.20 per square foot. It is important to note that by retiring bonds, interest costs to property owners are permanently reduced over the next 27 years. Staff estimates that $3.1 million in interest cost would be eliminated.

- Use the surplus to offset annual debt service payments and, therefore, the annual assessment to property owners over the next 2-3 years. If the City chose to use $4.0 million to pay down debt service during the next 3 years, the annual assessment per square foot is estimated to drop sharply to $0.77. After the three-year period, however, the assessment would rise to $1.35 per square foot. Use of this option would not eliminate interest costs as in the case of bond retirement, but would lessen the assessment during this period and provide considerable short-term relief to property owners and merchants. This scenario may cause property owners and merchants “sticker-shock” in the fourth year when assessments rise to the final level.

In addition to lowering assessments there is a need to place some of the surplus funds in a maintenance fund to be used for capital repairs that will likely be necessary in the future. The type of materials used in the construction of the garages (e.g., stone cladding, glass elevators) will be more expensive than more basic construction materials to replace or repair when they are damaged or reach the end of their life cycle. A reserve fund will enable substantial repairs to be done without imposing another parking assessment in the future. These funds would not be used for typical maintenance work such as re-striping, painting, cleaning, replacing lights, and other daily functions that are currently funded with parking permit fees.

City staff met with major downtown property owners to discuss the above options. There was not a unanimous view of how to use the funds. One property owner recommended using all funds to
retire bonds, while two others were in favor of offsetting the annual assessment over the next 3 years. A fourth favored funding a maintenance fund given experience with deterioration of garages and the need for substantial repairs over time.

Based on the feedback from these downtown property owners and from merchants, as well as the ostensible need to provide significant financial relief, staff has developed the recommendations below for use of the surplus. These recommendations represent guidelines that must be fine-tuned pending determination of the final amount of the surplus:

1. Retire approximately $3.0 million of bonds as soon as feasible
2. Offset debt service by approximately $1 million over the next 2 years ($0.62 million in 2004-05 and $0.38 million in 2005-06)
3. Place $500,000 in a maintenance fund for future capital improvements to the two garages

The combined effects of these recommendations would be to provide considerable financial relief in the next few years while mitigating assessments and interest costs over the next 27 years. In addition, by creating a maintenance fund, property owners and merchants are ensured that adequate funds are available for future capital repairs. The current 2003-04 assessment is $1.16 per square foot. Based on the recommendations above, it is estimated that the annual per square foot assessment in the future would be as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Assessment per Square Foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>$0.97</td>
</tr>
<tr>
<td>2005-06</td>
<td>$1.08</td>
</tr>
<tr>
<td>2006-07</td>
<td>$1.24</td>
</tr>
</tbody>
</table>

These recommendations provide a reasonable mixture of immediate and long-term relief from the expected annual assessment to construct the garages. Naturally, a variety of scenarios can be constructed for use of the surplus funds and staff is seeking Council Finance Committee direction to either move forward with its recommendations or pursue different scenarios.

It should be noted that to provide relief to merchants, it is the responsibility of landlords to pass through the savings identified above. Since assessments are paid via the property tax bill, it is through the landowner’s agreement with the tenant that savings would be passed through. Finally, in addition to the garage construction surplus funds, the City has surplus funds from constructing the non-parking or commercial/retail area adjacent to the S/L garage. At this time, a surplus of $1.0 million is anticipated. Staff will return to the Finance Committee with a recommendation on the use of these funds as the budget issues for 2004-05 become clearer.

**RESOURCE IMPACT**

Funding for the design and construction was provided through the issuance of $44.6 million by the University Avenue Off-Street Assessment District. As a consequence of lower than expected construction bids, surplus funds estimated at between $4.0 to $4.5 million will be available. Based on the recommendations in this report, it is estimated that the annual, $1.35 per square foot assessment originally anticipated can be reduced to $0.97 per square foot in 2004-05, $1.08 in
2005-06, and $1.24 from 2006 through 2030. In addition, a maintenance fund of $500,000 would be established for future capital repairs to the garages.

**POLICY IMPLICATIONS**
There are no established Council policies regarding the distribution of surplus funds for an Assessment District. Staff has discussed use of the surplus funds with Bond Counsel and the uses described in this report are permitted by the bond documents.

**TIMELINE**
In order to reduce the 2004-05 assessment to downtown property owners, it is necessary to finalize a plan on the surplus funds by June 1, 2004.

**ENVIRONMENTAL ASSESSMENT**
No environmental clearance is required for financial actions. An Environmental Impact Report was prepared for the garages as part of the PC zoning application and was certified by Council on December 20, 1999.

**ATTACHMENTS**
None

PREPARED BY: ______________________________________________
KAREN BENGARD
Senior Engineer

____________________________________________
JOE SACCIO
Deputy Director of Administrative Services

DEPARTMENT HEAD: ______________________________________________
GLENN S. ROBERTS
Director of Public Works

DEPARTMENT HEAD: ______________________________________________
CARL YEATS
Director of Administrative Services

CITY MANAGER APPROVAL: ______________________________________________
EMILY HARRISON
Assistant City Manager